
3Q24

North Peninsula Office Market Overview



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Market Observations

Economy

- The Peninsula’s labor market took a step back at the start of the second half of the year, with August’s unemployment rate rising to 4.0%, up from 3.0% in May.
- In mid-September, the Fed kicked off its first rate-cutting cycle in four years, reducing interest rates by 50 basis points. The market now anticipates an additional 50-basis-point cut by year-end, followed by ongoing 25-point reductions through 2025.
- The Fed continues to emphasize that while the economy remains robust and inflation risks are subsiding, it will not rush into further rate cuts. Instead, it will respond to evolving economic data. For now, indicators suggest the potential for a soft landing.

Major Transactions

- IXL Learning secured the largest deal of the quarter, leasing 93,141 square feet at 777 Mariners Island Blvd. in San Mateo.
- The second-largest transaction was completed by international law firm Gunderson Dettmer, which renewed its 61,760-square-foot lease at 550 Allerton Street in Downtown Redwood City.
- This quarter’s most notable property sale was the acquisition of San Mateo Gateway, a three-building office campus located at 1800-1820 Gateway Drive in San Mateo. The 235,000-square-foot campus, approximately 60.0% occupied at the time of sale, was acquired by SC Properties for \$37.5 million, or \$159/SF.

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Leasing Market Fundamentals

- Market-wide vacancy dropped to 18.3% this quarter, down from 19.0% in the previous quarter. Sublease vacancy also decreased, reaching 5.5% compared to 6.1% last quarter. Market-wide availability recorded a slight decrease to 20.4%, from 21.0% in the prior quarter. Sublease availability followed the trend, falling to 6.0%, down from 6.6%.
- Leasing activity has rebounded strongly, up 68.0% from a year ago, after reaching a post-pandemic low in 2023.
- Overall, the North Peninsula leasing market remains active, though average deal sizes continue to lag behind pre-pandemic levels—a trend expected to persist in the near term. Leasing concessions remain elevated, signaling that tenants still have the upper hand as landlords prioritize occupancy over asking rate increases.

Outlook

- At the close of the third quarter, property sales across the North Peninsula totaled \$90.8 million, a 35.4% increase from \$67.0 million in the previous quarter and an 18.7% rise from \$18.7 million a year ago.
- If the Fed continues its cautious approach to easing interest rates, the resurgence in CRE deal flow is expected to persist as market conditions stabilize.
- Positive sentiment, driven by increased demand for AI-focused spaces, is anticipated to boost absorption heading into year-end, supported by employers enforcing stricter in-office workweek policies. Looking ahead, landlords are expected to maintain their competitive edge by offering generous concessions, including extended free rent periods and tenant improvement allowances.

1. Economy
2. Leasing Market Fundamentals
3. Appendix

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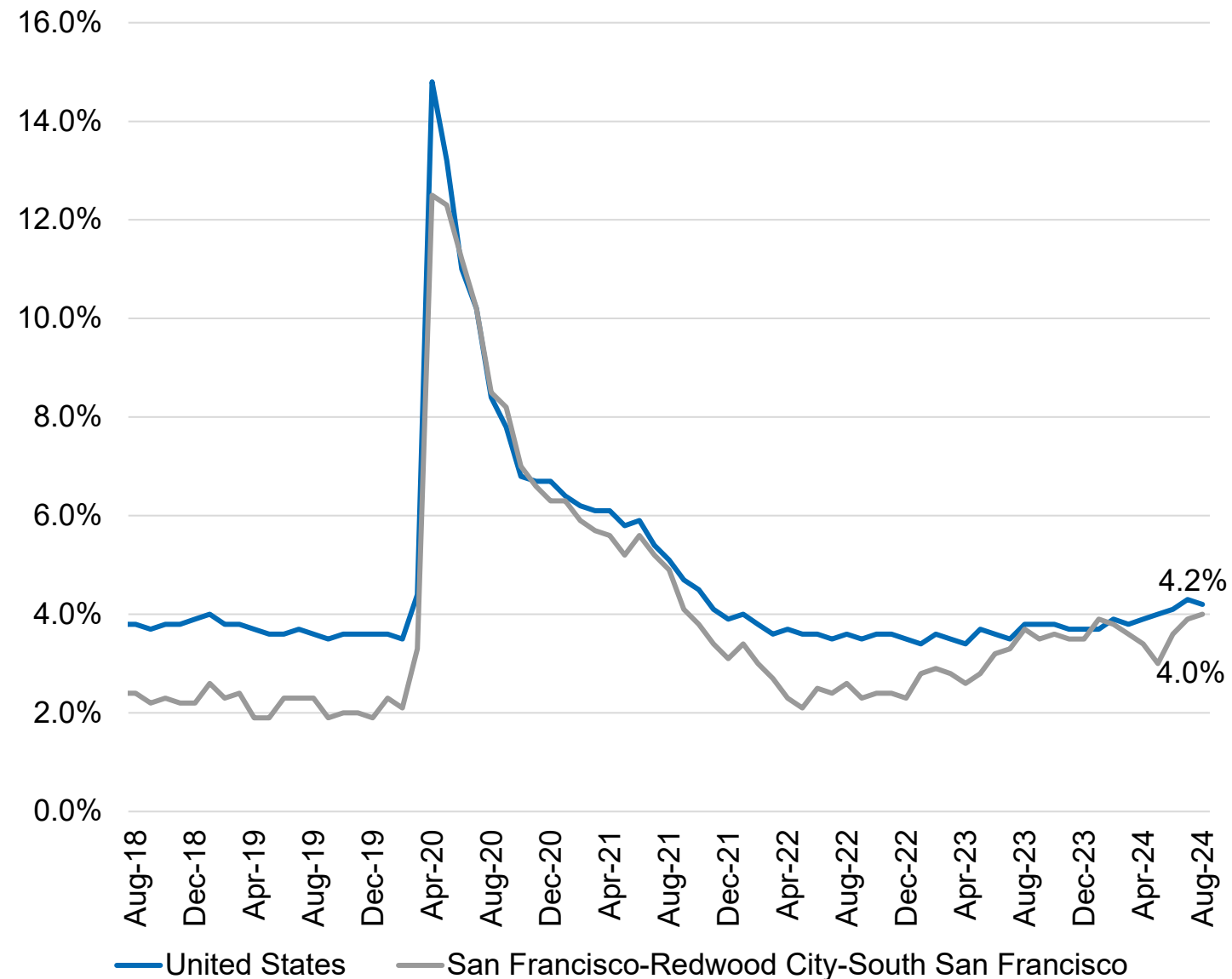
Economy



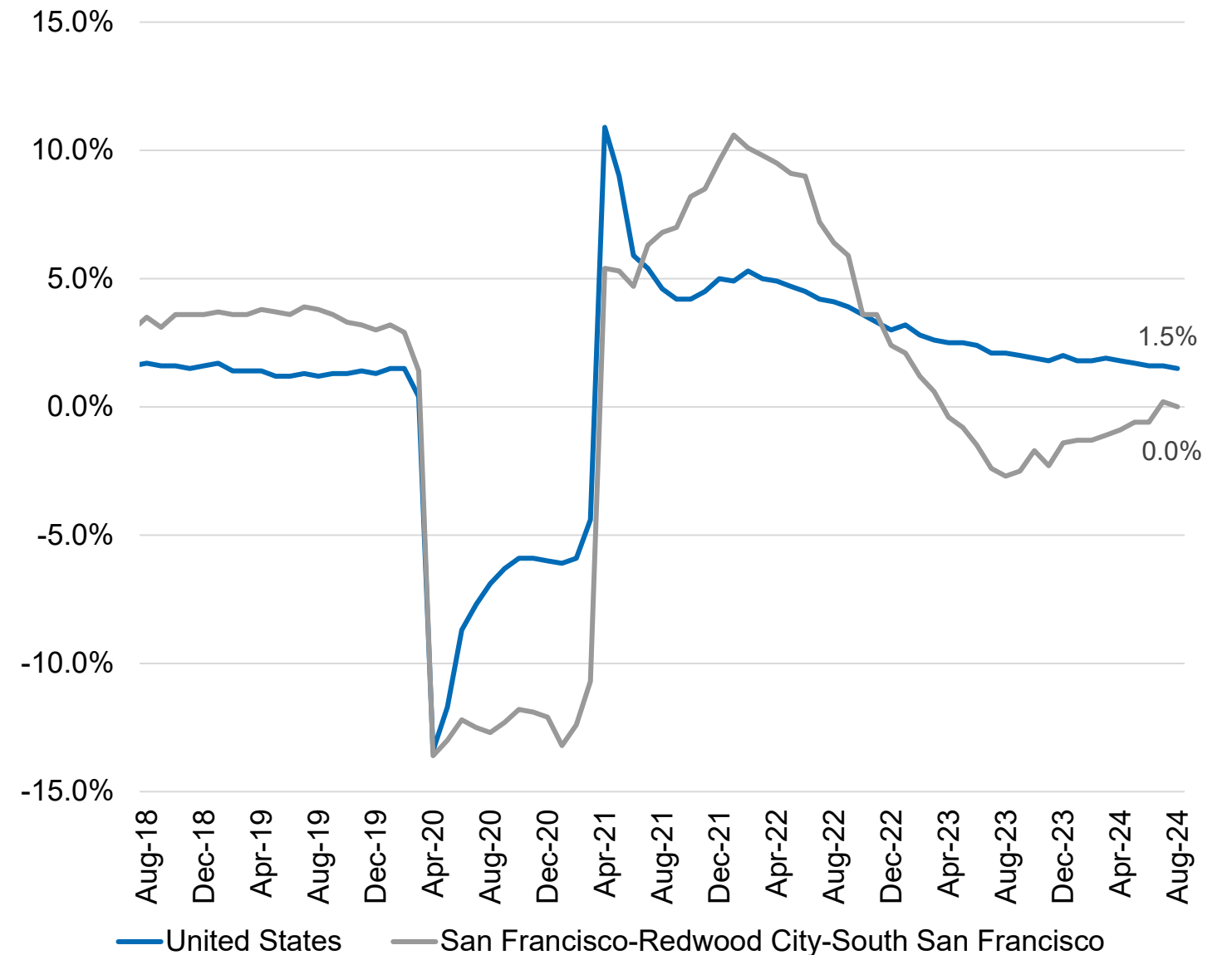
Regional Unemployment Increases Sharply Over Four Months

The region's unemployment rate rose to 4.0%, up 100 basis points since May, as layoffs in the tech sector persist. Despite this, the regional unemployment rate remains just below the national average, which increased by 20 basis points over the same period. Nonfarm employment in the region held steady year-over-year, while national growth continues to slowly decline.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Not Seasonally Adjusted, 12-Month % Change

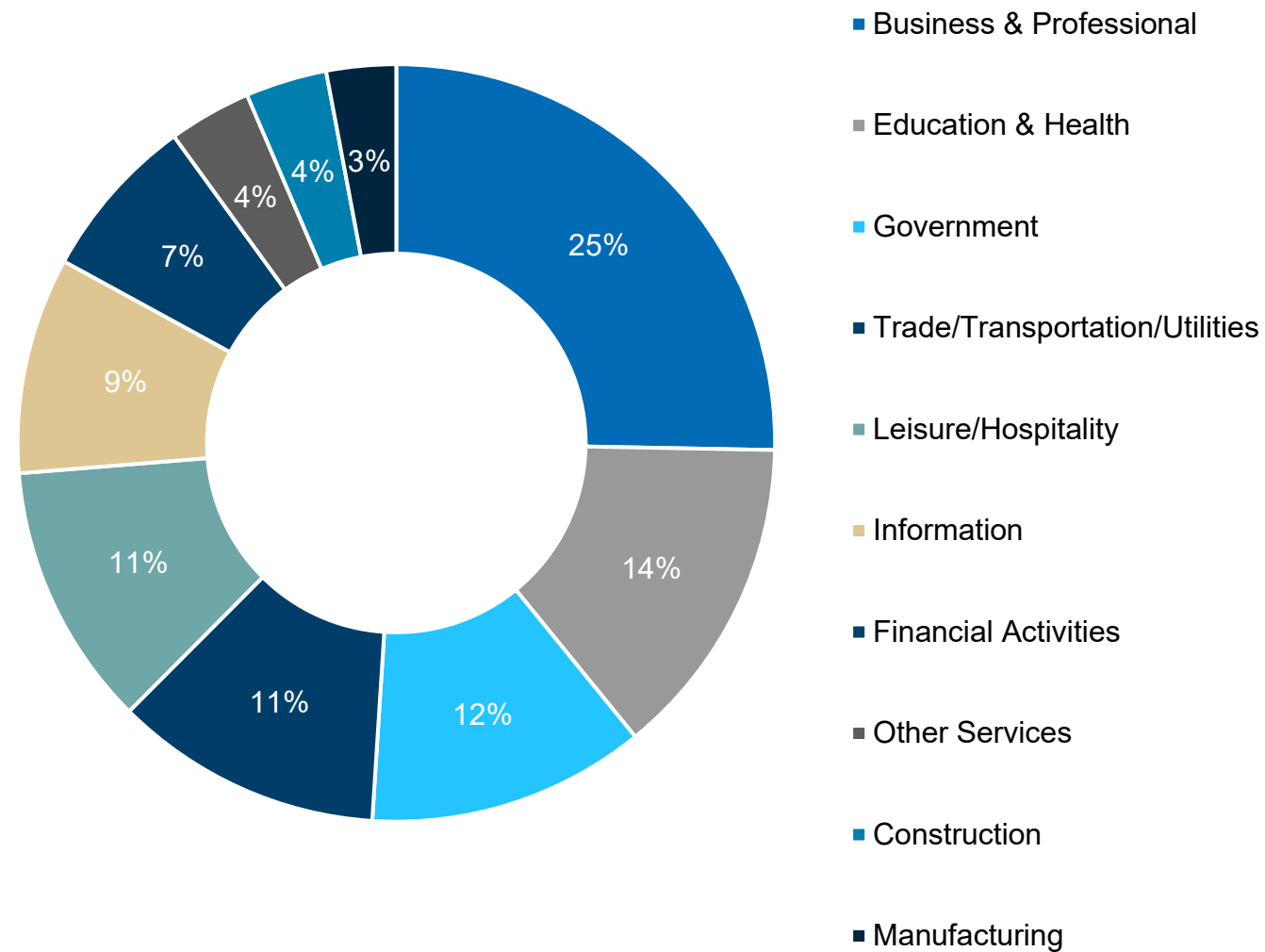


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco, August Data is Preliminary

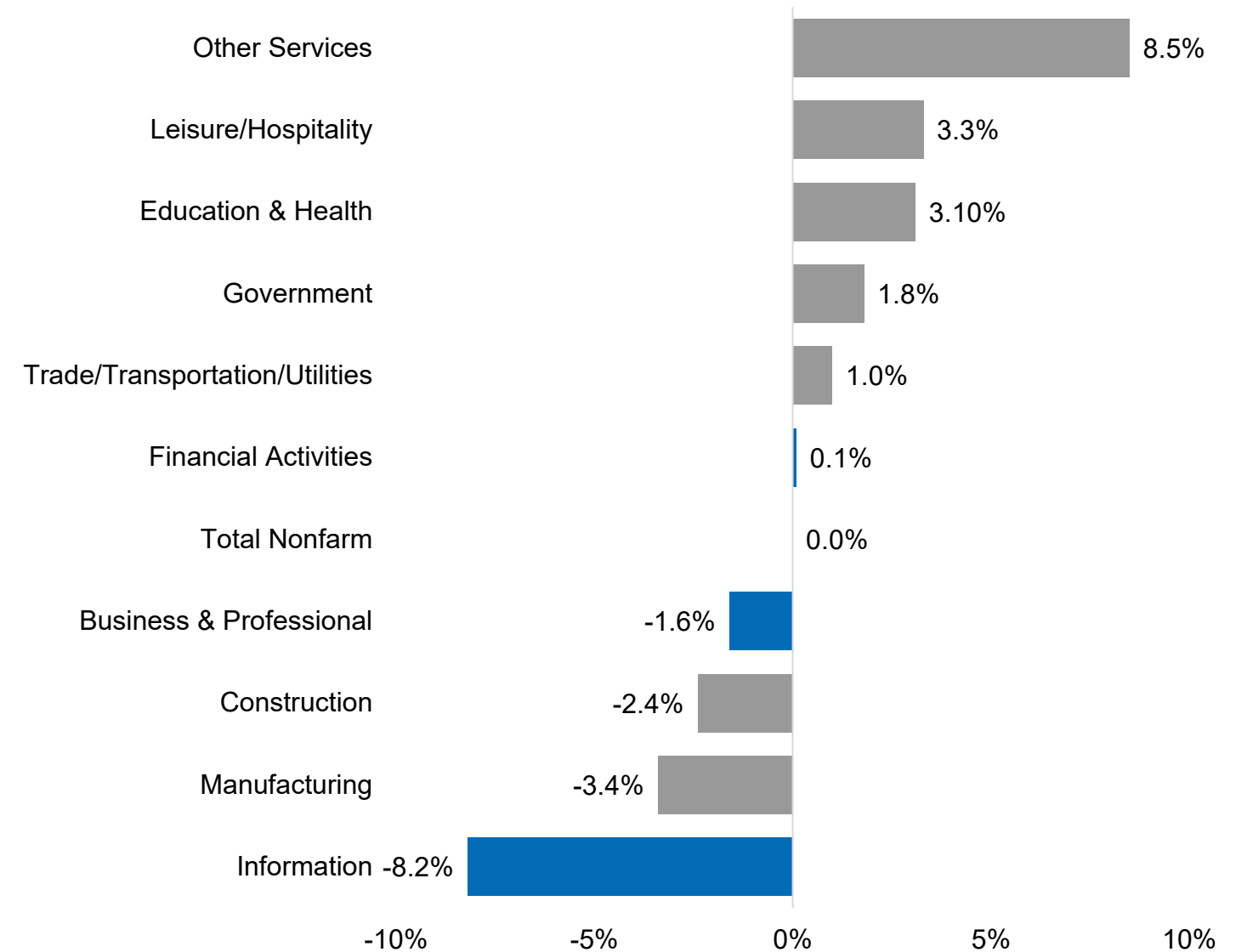
Information Industry Employment Down 8.2% Year-Over-Year

Other Services, Leisure and Hospitality, and Education & Health sectors had the largest year-over-year increases in employment. Financial activities was the only office-using industry to increase year-over-year.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

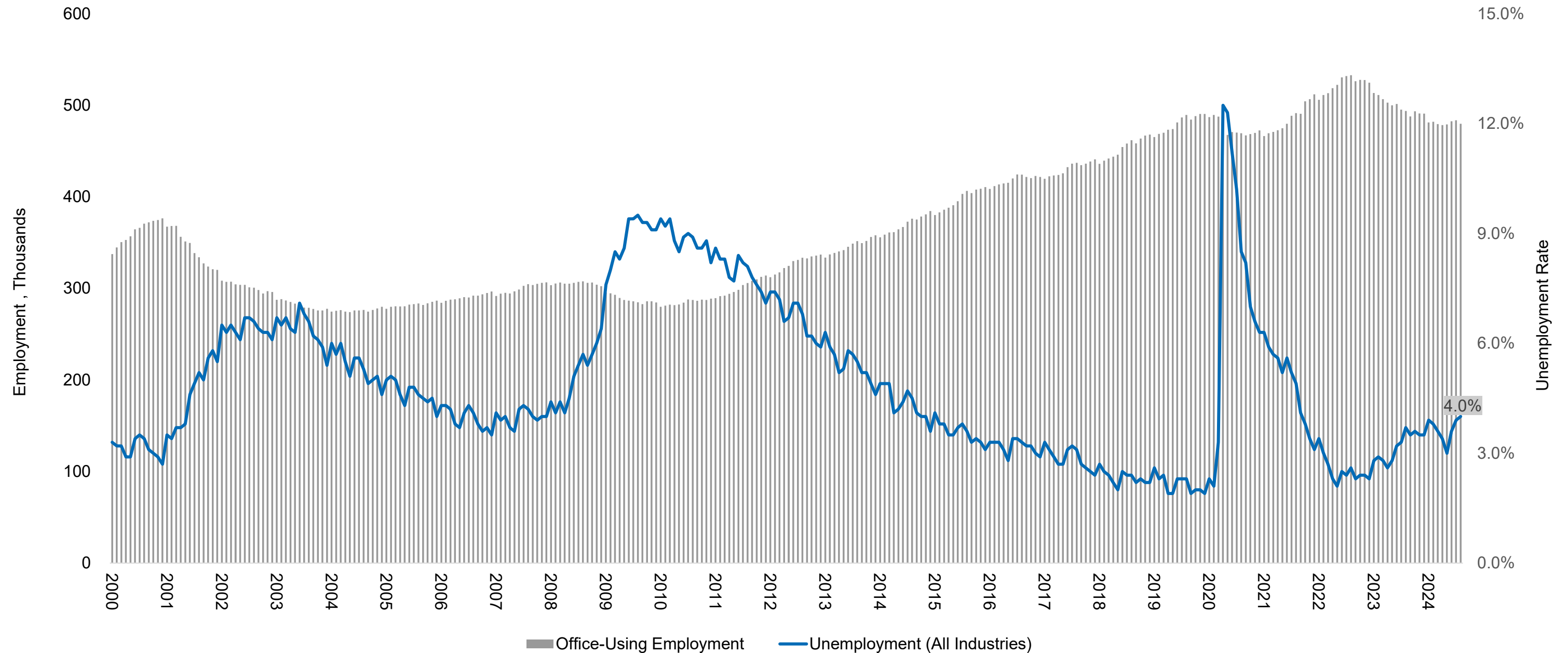


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco August Data is Preliminary

Office-Using Employment Falls Below Pre-Pandemic Levels

After surging above pre-pandemic levels for several quarters, total office using employment fell 1.9% below the pre-pandemic mark and 9.9% below a 2022 highpoint as firms continue to right-size their workforces.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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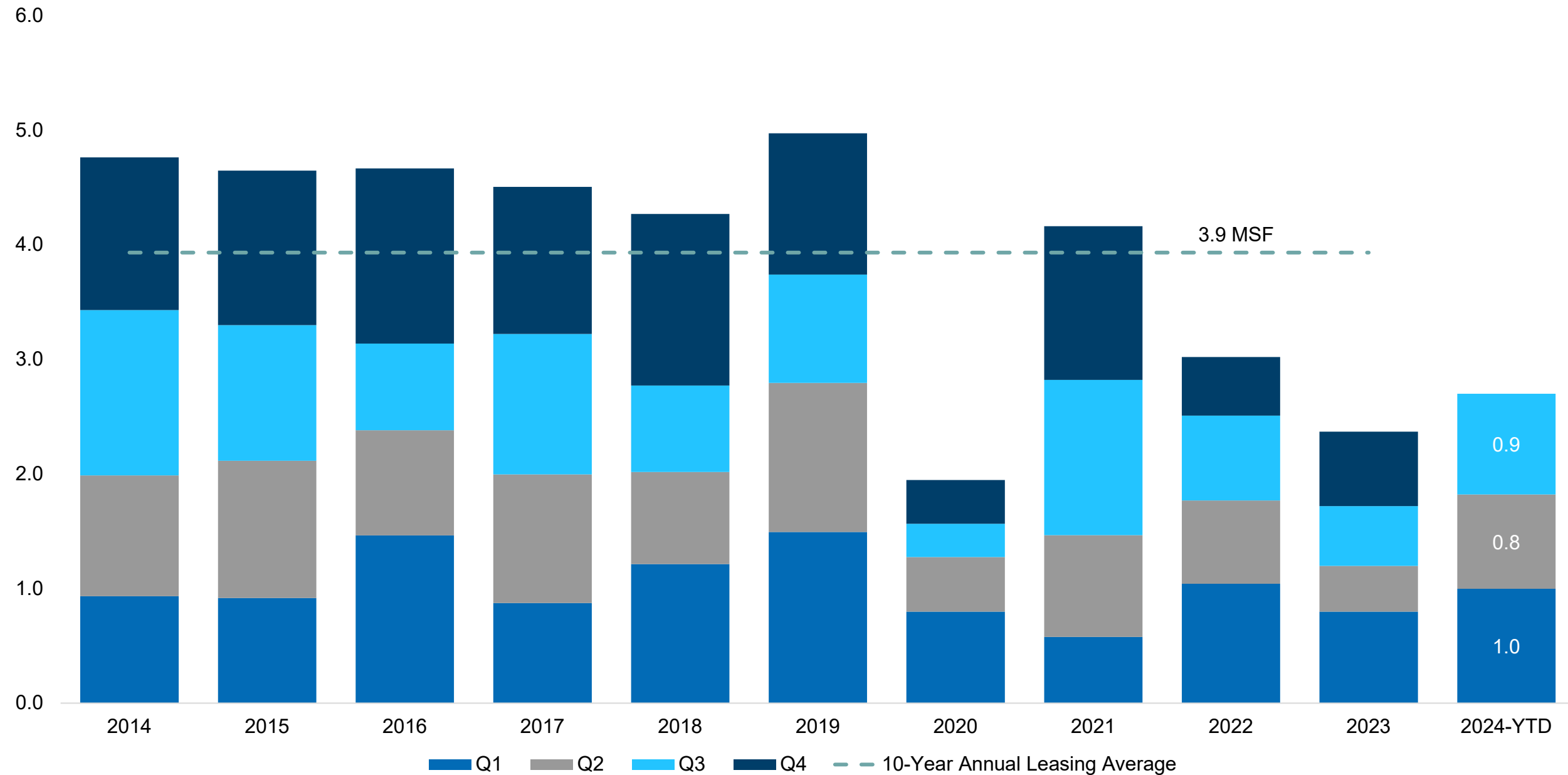
Leasing Market Fundamentals



Leasing Activity Advances Slightly

Total leasing activity for the quarter reached 878,200 square feet, representing a 6.6% increase quarter-over-quarter and a 68.0% increase year-over-year. Class A leasing dominated, making up 77.0% of the total square footage transacted, with Class B at 17.0% and Class C at 6.0%. This follows a previous quarter where Class A leasing accounted for 46.0%, Class B for 49.0%, and Class C for 5.0%.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar



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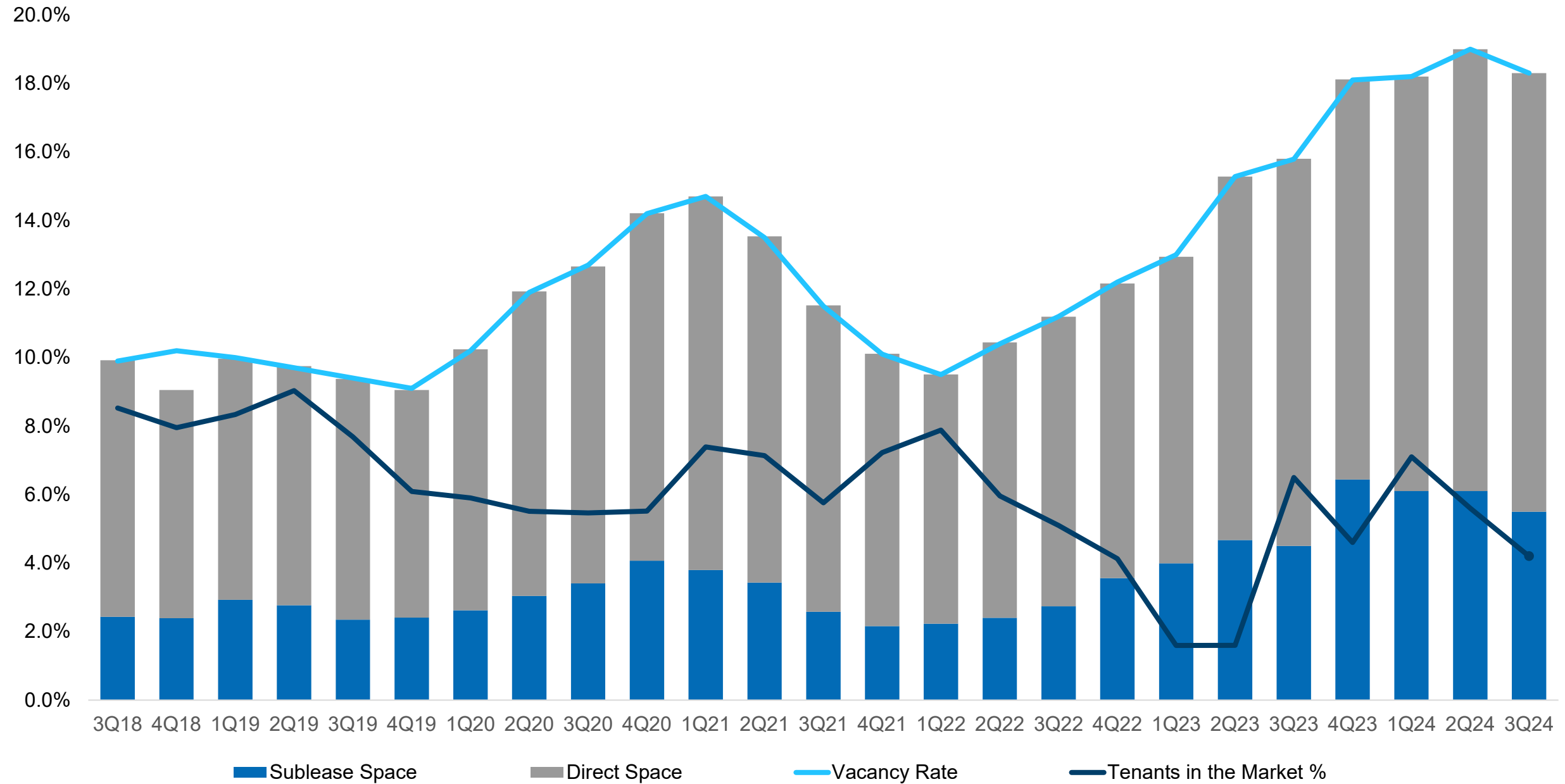


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Demand Takes A Step Back

Tenant demand dropped to 1.7 million square feet this quarter, down from 2.2 million in the previous quarter and 2.6 million square feet a year ago.

Vacant Space and Active Tenant Demand as Percent of Overall Market



Source: Newmark Research

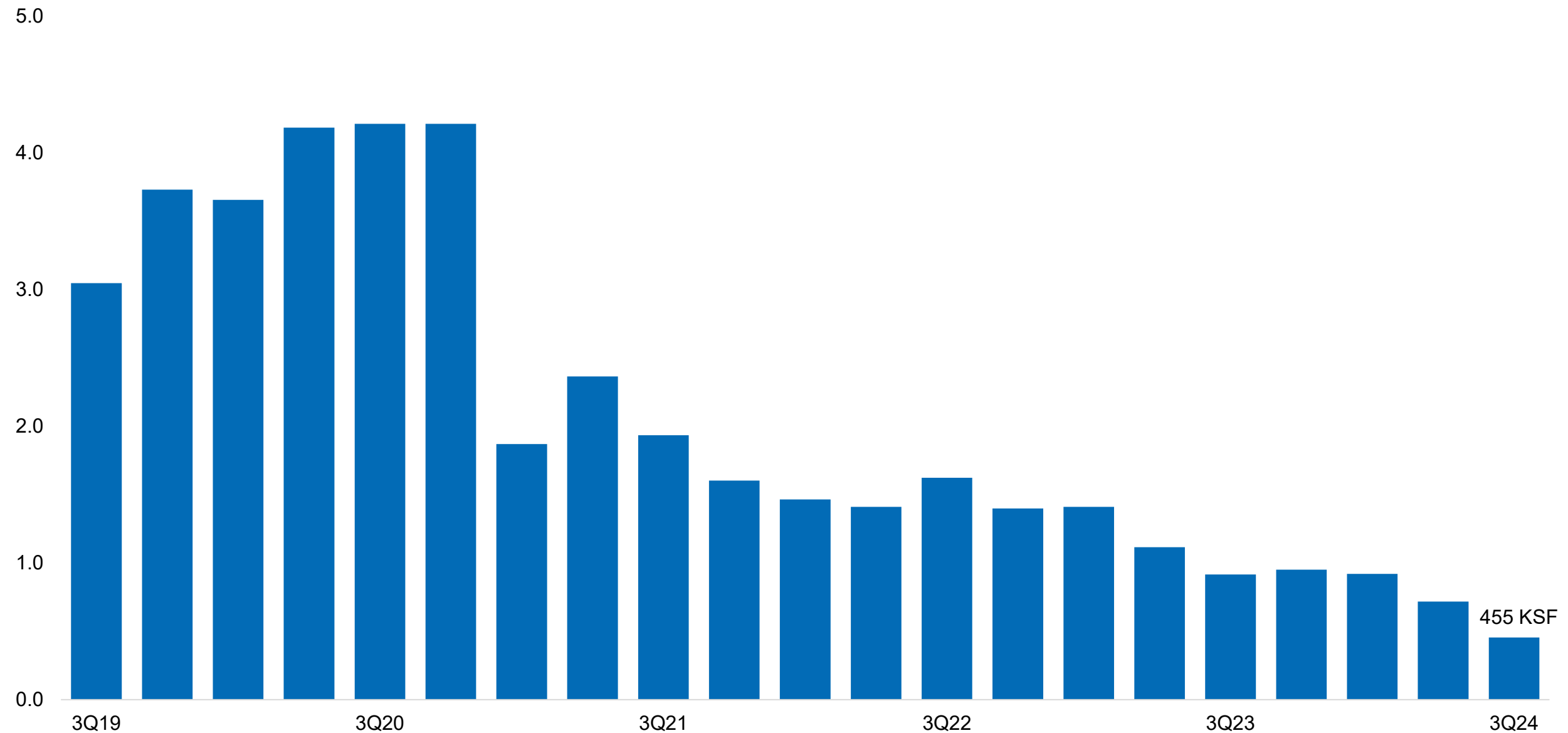


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Construction Activity Hits Historic Low

The total volume of under-construction product in the North Peninsula market continued to decline in the third quarter of 2024, landing at 455,000 square feet, none of which was preleased. On the completion side, 567 Airport Blvd. in Burlingame was delivered this quarter, 100% preleased to Meta. Developers remain cautious about new office projects due to the market's historically high vacancy rates, rising construction costs, and subdued demand.

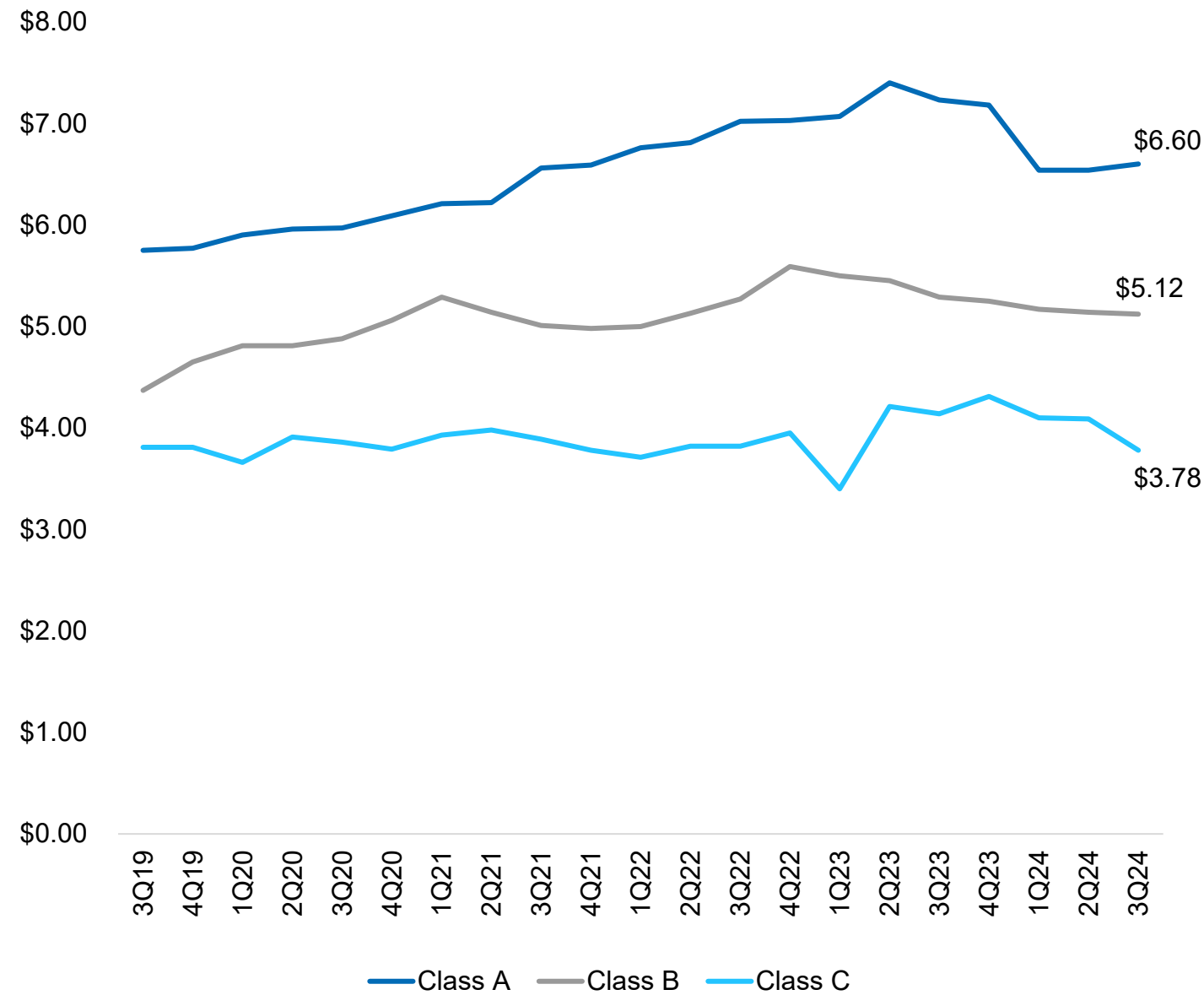
Office Under Construction (MSF)



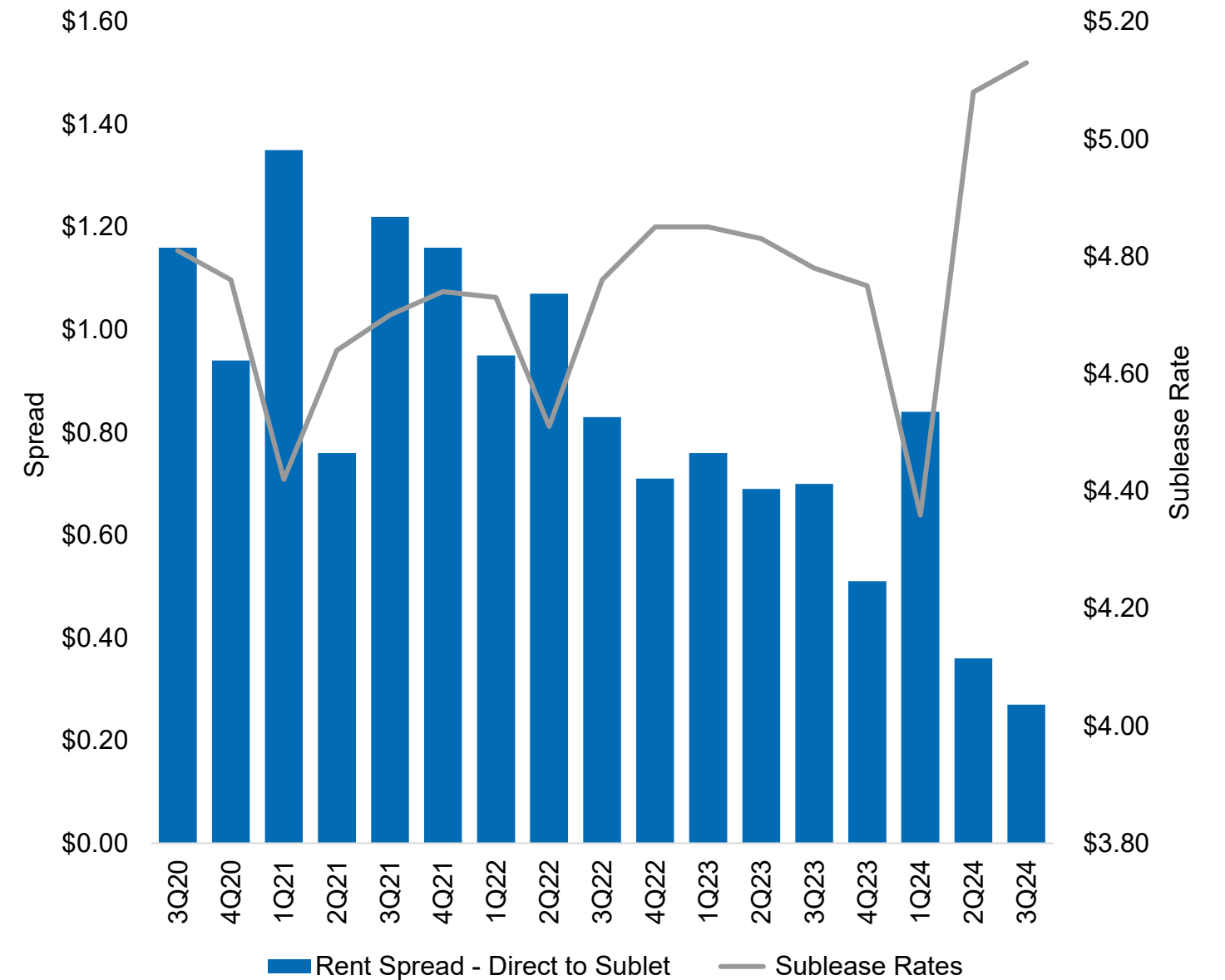
Average Class A Rate Increases, Class B and C Rates Drop

This quarter's average asking rents for Class A, Class B, and Class C properties were \$6.60/SF, \$5.12/SF, and \$3.78/SF, respectively. This compares to the previous quarter, where Class A rents averaged \$6.54/SF, Class B at \$5.14/SF, and Class C at \$4.09/SF.

Class A, B, and C Full Service Asking Rents



Sublease Rates



Source: Newmark Research

3Q24 Market Activity

There were five transactions of 20,000 square feet or more executed this quarter, compared to six in the previous quarter and five in the same period last year.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
IXL Learning	777 Mariners Island Blvd	San Mateo	Lease Renewal/Expansion	93,141
<i>IXL Learning completed the largest deal of the quarter, completing a 93,141-square foot lease at 777 Mariners Island Blvd. in San Mateo.</i>				
Gunderson Dettmer	550 Allerton Street	Redwood City	Renewal	61,760
<i>International law firm Gunderson Dettmer completed the second-largest deal of the quarter, renewing their 61,760-square foot lease at 550 Allerton Street in Downtown Redwood City.</i>				
Vera Therapeutics	2000 Sierra Point Pkwy	Brisbane	Sublease	40,232
<i>Clinical-stage biotechnology company Vera Therapeutics completed the third-largest office deal of the quarter, subleasing 40,232 square feet from BioMarin Pharmaceutical on the eleventh and twelfth floor at 2000 Sierra Point Parkway in Brisbane.</i>				
Course Hero	2000 Seaport Blvd	Redwood City	Short-term Extension	40,209
<i>Course Hero completed a short-term extension on the third floor at 2000 Seaport Blvd. in the Pacific Shores Center in Redwood City for the fourth-largest deal of the quarter.</i>				
Regus	149 Commonwealth Dr	Menlo Park	Direct	23,809
<i>Regus completed the fifth-largest deal of the quarter, leasing 23,809 square feet at 149 Commonwealth Drive in Menlo Park.</i>				

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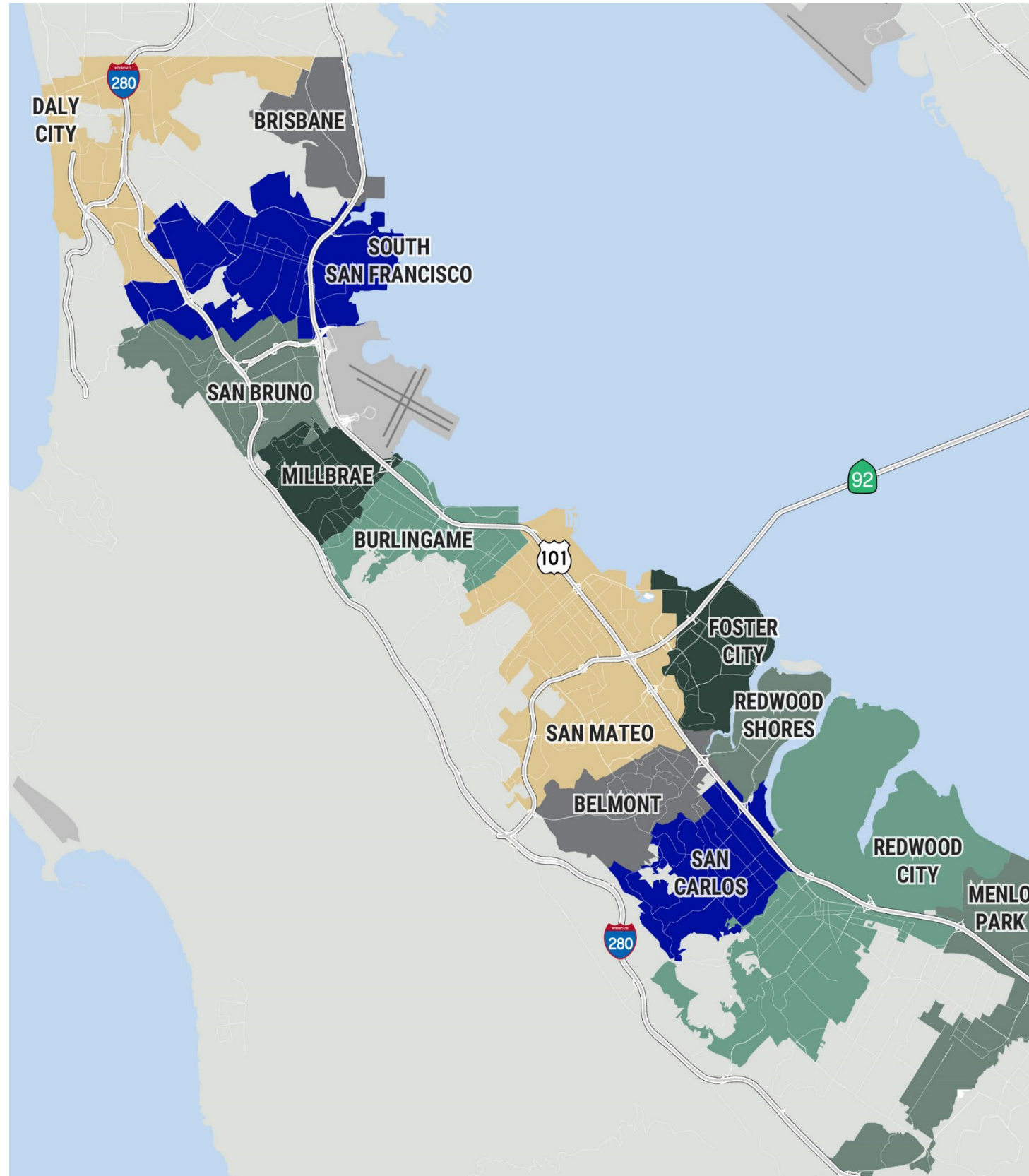
Appendix





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North Peninsula- Submarket Map



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